EROSION OF PRIVATE HEALTH INSURANCE COVERAGE FOR RETIREES

FINDINGS FROM THE 2000 AND 2001 RETIREE HEALTH AND PRESCRIPTION DRUG COVERAGE SURVEY

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THE HENRY J. KAISER FAMILY FOUNDATION

HRET
HEALTH RESEARCH & EDUCATIONAL TRUST
In Partnership with AHA

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The **Health Research and Educational Trust** (HRET) is a private, not-for-profit organization involved in research education and demonstration programs addressing health management and policy issues. Founded in 1944, HRET, an affiliate of the American Hospital Association, collaborates with health care, government, academic, business, and community organizations to conduct research and disseminate findings that help shape the future of health care.

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OVERVIEW

Employer-sponsored health plans are a crucial source of health insurance for retirees. They bridge gaps in health insurance coverage for those who retire in their late fifties or early sixties and do not yet qualify for Medicare. For those age 65 and older, employer-sponsored retiree health plans address Medicare's inadequacies by contributing to cost-sharing requirements and paying for medical care that is not covered, especially outpatient prescription drugs. Employer-sponsored plans are the single largest source of supplemental coverage for Medicare beneficiaries; more than one-third of seniors—almost 14 million people on Medicare—have supplemental coverage from an employer plan. Although other Medicare beneficiaries may obtain supplemental coverage by purchasing a private Medigap policy or enrolling in a Medicare+Choice plan, employer-sponsored retiree benefits tend to be more comprehensive and affordable, and, at least until very recently, stable.

The share of employers offering retiree health coverage has been declining over the past decade and evidence suggests that employer-sponsored retiree benefits will likely erode further because of both rising health care costs and the downturn of the economy. This chart pack profiles retiree health coverage for Medicare-age (65 and older) retirees, including prescription drug benefits offered by employers in 2001 and offers insights about recent changes in retiree health coverage as well as modifications employers are likely to make in the near future.

Overall, the survey finds that larger employers are far more likely than small and midsized employers to offer retiree health benefits. Employer-sponsored retiree health benefits are most commonly available to individuals who worked in large firms for extended periods of time. For those with retiree benefits, the coverage tends to be comprehensive but relatively expensive; retirees, on average, pay more for their coverage than active workers. Nearly all retirees with employer-sponsored coverage receive drug coverage and just over half are in plans with a multitiered cost-sharing formula for prescriptions. By 2001, numerous warning signs indicate that although few employers are dropping coverage altogether, many say they plan to make changes that shift a greater share of costs to retirees by raising premium contributions and imposing greater cost-sharing requirements for benefits such as prescription drugs.

METHODOLOGY

The 2001 Retiree Health and Prescription Drug Coverage Survey is a joint project of The Henry J. Kaiser Family Foundation, The Commonwealth Fund, and the Health Research and Educational Trust (HRET). Sponsored by the Kaiser Family Foundation and The Commonwealth Fund, it is a supplement to the national employer survey conducted annually by the Kaiser Family Foundation and HRET. Prior to 1999, the national survey was conducted by KPMG Peat Marwick LLP. The Commonwealth Fund provided support for supplemental sections to the national survey in 1997, 1999, and 2000.

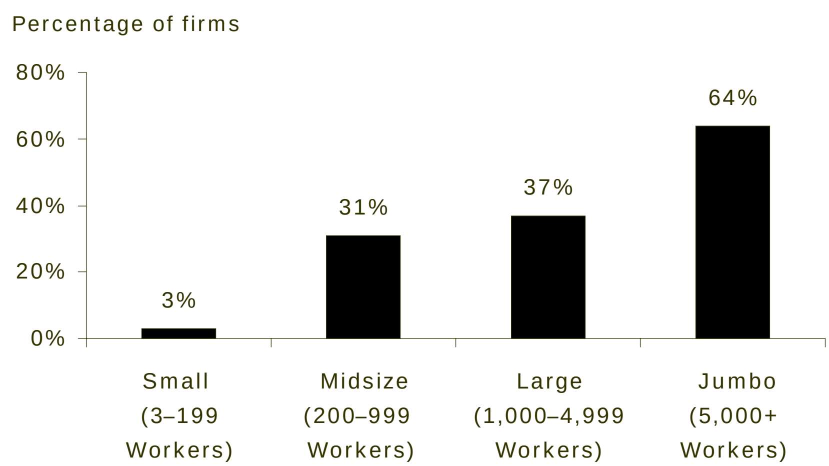
The survey asked employee benefit managers a series of questions concerning health coverage and prescription drug coverage for Medicare-age (65 and older) retirees, including questions about the nature of prescription drug benefits for the health plan with the greatest number of Medicare-age retirees enrolled.

The findings presented here are based on interviews with employee benefit managers from a random sample of 1,907 public and private employers with three or more workers, of which 472 firms offered health benefits to Medicare-age retirees. The sample was drawn from a list of the nation's firms developed by Dunn and Bradstreet. The survey was designed and analyzed by researchers at Kaiser, Commonwealth, and HRET, and fielded by National Research LLC from January to May 2001. The overall response rate for the survey was 50 percent and the margin of error of response is +/– 5 percent.

Note: Additional copies of this study are available from the Kaiser Family Foundation's website, www.kff.org, or the Commonwealth Fund's website, www.cmwf.org, or by calling 1-800-656-4533 (Kaiser) or 1-888-777-2744 (Commonwealth).

Large Firms Are Substantially More Likely than Small Firms to Offer Retiree Health Benefits

Figure 1. Percentage of Firms that Offer Retiree Health Benefits, by Firm Size, 2001



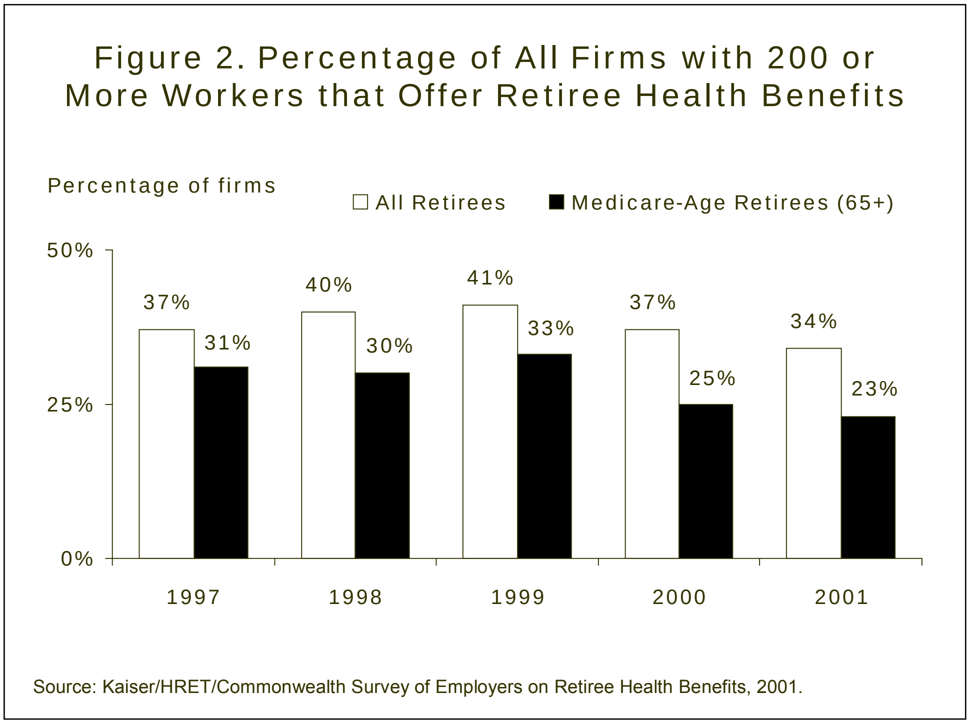
Note: The survey was conducted among firms with three or more workers offering health benefits to active employees.

Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- There is a direct relationship between firm size and the likelihood of offering retiree health benefits. Nearly two-thirds (64%) of jumbo firms (5,000 or more workers) offered retiree health benefits in 2001, versus 3 percent of small firms (3–199 workers).

- Among firms of all sizes, the percentage of firms that offer retiree health benefits has been declining over time (see next figure).

Percentage of Firms Offering Health Benefits to Medicare-Age Retirees Has Declined Since 1997

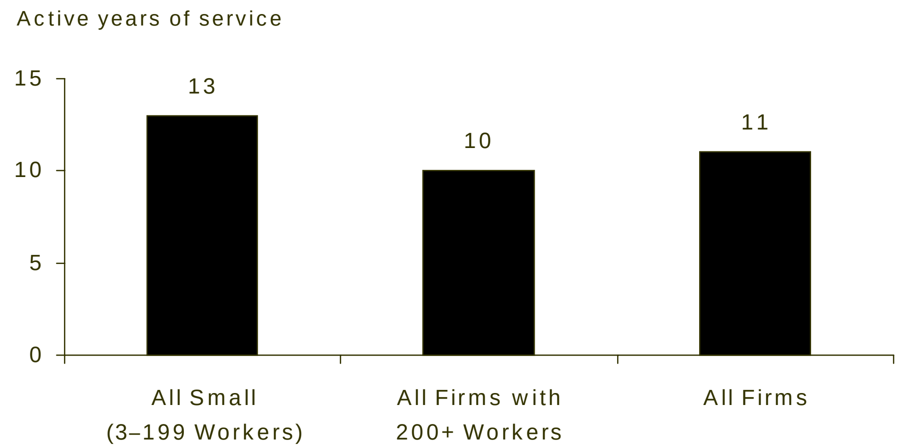


- The percentage of firms with 200 or more workers offering retiree health benefits fell 7 percentage points from 1999 to 2001 (from 41% to 34%), reaching the lowest rate in five years. The rates have declined steadily since 1988, when 66 percent of these firms offered retiree health benefits (not shown).

- The percentage of firms offering retiree health benefits to Medicare-age retirees (65 and older) is also at the lowest level in five years, and fell 10 percentage points from 1999 to 2001 to just 23 percent. Firms that offer retiree health benefits are more likely to offer them to early retirees than to Medicare-age retirees.

On Average, Employees Must Work for a Company for at Least 10 Years to Be Eligible for a Firm's Retiree Health Benefits

Figure 3. Average Number of Active Years of Service Required to Be Eligible for a Firm's Retiree Health Benefits, by Firm Size, 2001



Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- Firms of all sizes tend to impose a minimum years-of-service requirement as a condition for receiving retiree health benefits.

- Small firms (3–199 workers) have the most stringent service conditions, requiring more than 13 years of active service before a worker becomes eligible for retiree health benefits.

More than Eight of 10 Medicare-Age Retirees with Employer-Sponsored Health Benefits Work in Large or Jumbo Firms

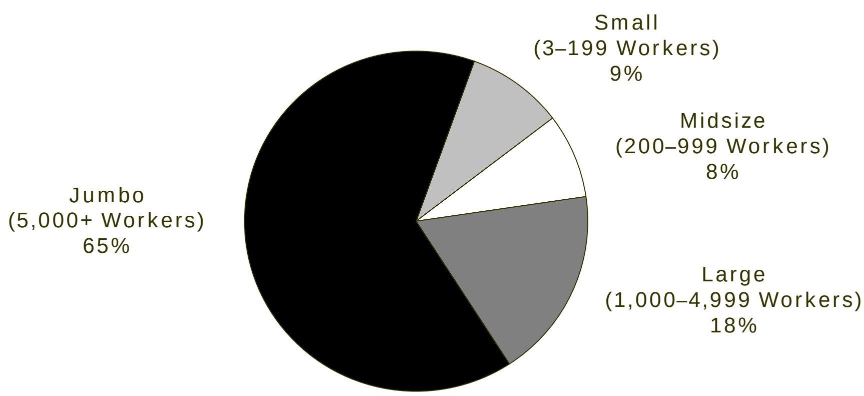


Figure 4. Distribution of Medicare-Age Retirees (65+) with Employer-Sponsored Health Benefits, by Size of Former Employer, 2001

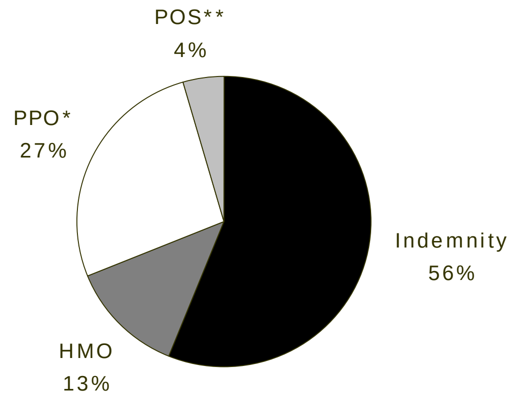
Note: Question asked only of firms offering coverage to retirees 65 and older.

Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- Medicare-age retirees (65 and older) who have health benefits through their former employer are most likely to work for jumbo firms. By contrast, few Medicare-age retirees with employer-sponsored health benefits formerly worked for a small or midsize firm.

In Firms Providing Health Benefits to Medicare-Age Retirees, Indemnity Health Plans Have the Largest Enrollments

Figure 5. Type of Plan with Firm's Largest 65+ Enrollment, 2001



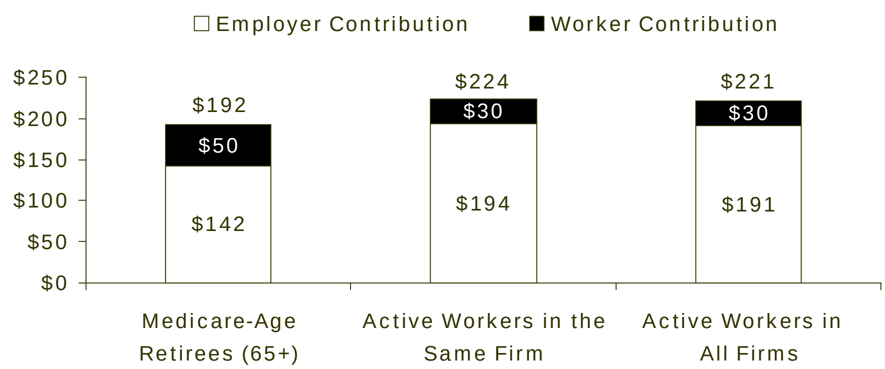
Note: Percentages represent the plan with the firm's largest 65+ retiree enrollment.
* Preferred provider organization.
** Point-of-service plan.

Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- Among firms' health plans with the largest enrollments, 56 percent of Medicare-age retirees with coverage are enrolled in indemnity plans, and 27 percent are in PPOs that supplement Medicare. By contrast, just 7 percent of active workers are enrolled in indemnity plans for their primary health insurance coverage.

Retirees Pay Higher Contributions for Single Coverage than Do Active Workers in the Same Firm or Active Workers in All Firms

Figure 6. Average Monthly Employer and Worker Contributions for Single Coverage of Medicare-Age Retirees (65+), Active Workers in the Same Firm, and Active Workers in All Firms, 2001



Note: Active workers are workers in same firms that offer 65+ retiree coverage.

Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

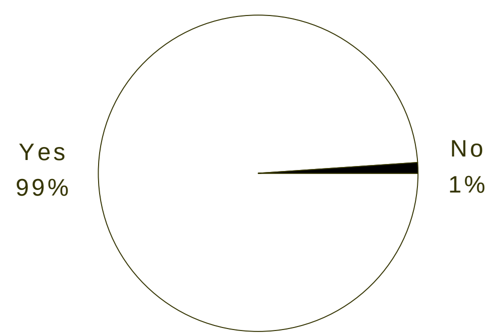
- The average combined employer/employee monthly premium for single coverage for Medicare-age retirees (65 and older) is $192 per month, considerably lower than the $224 per month average premium for active workers in the same set of firms. Premiums are typically lower for Medicare-age retirees because Medicare is the primary payer and employer-sponsored coverage wraps around the Medicare benefit.

- Medicare-age retirees contribute $50 per month on average for single coverage, while active workers in the same set of firms contributed $30 per month on average.

- Medicare-age retirees pay for 26 percent of the total premium cost on average, compared with 13 percent for active workers in the same set of firms.

Nearly All Medicare-Age Retirees in Firms Offering Health Benefits Have Prescription Drug Coverage

Figure 7. Percentage of Medicare-Age Retirees (65+) in Firms Offering Health Benefits with Prescription Drug Coverage, 2001



Percentages represent the plan with the firm's largest 65+ retiree enrollment.

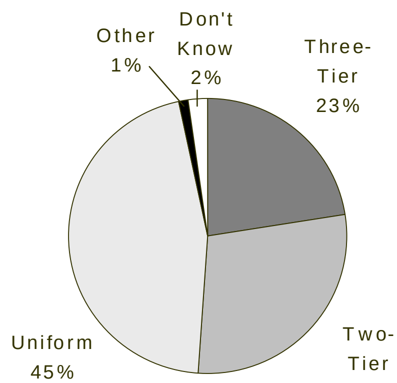
Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- Nearly all (99%) Medicare-age retirees (65 and older) with employer-based health benefits have prescription drug coverage in the firm's largest retiree plan.

- Although most Medicare-age retirees with employer health benefits have prescription drug coverage, the level of benefits often varies by the firm's size, region, and industry.

Most Medicare-Age Retirees with Drug Coverage Are in Plans that Use Tiered Cost-Sharing Formulas

Figure 8. Type of Cost-Sharing Formula Used in the Firm's Largest Retiree Plan, 2001



- **Three-Tier Cost-Sharing Formula** – One payment for generic drugs, another for brand- name drugs with no generic substitute, and a third for brand-name drugs with a generic substitute.
- **Two-Tier Cost-Sharing Formula** – One payment for generic drugs and another for all brand-name drugs.
- **Uniform** – The cost-sharing formula is the same regardless of the type of drug chosen.

Note: Percentages represent the plan with the firm's largest 65+ retiree enrollment.

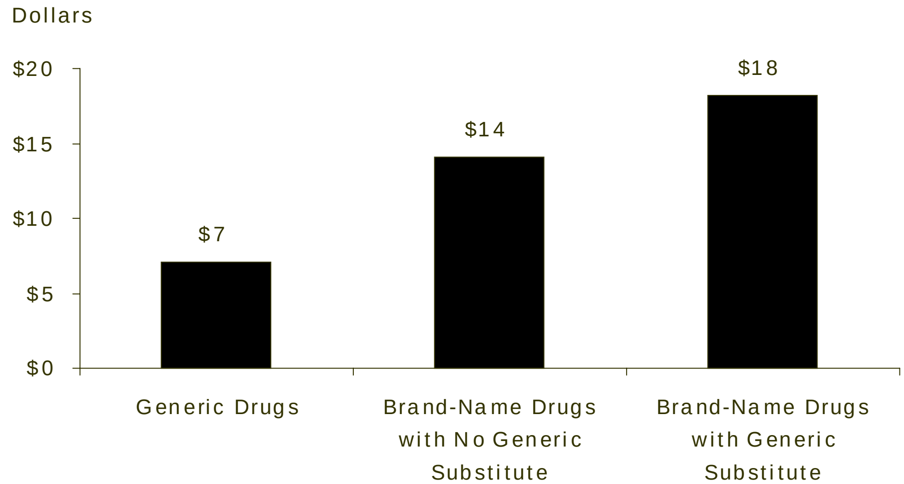
Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- Uniform cost-sharing formulas (one payment level for all drugs) are the single most common cost-sharing approach for Medicare-age retirees (65 and older), with 45 percent of firms using this strategy.

- The majority (52%) of retiree health plans, however, impose either a two-tier or three-tier cost-sharing formula for prescription drugs. Close to one of three (29%) Medicare-age retirees with a prescription drug benefit is subject to a two-tier cost-sharing formula (one payment for generics and another for all brand-name drugs), and nearly one of four (23%) is subject to three-tier cost-sharing.

Prescription Drug Copayments for Medicare-Age Retirees Are Twice as High on Average for Brand-Name Drugs as for Generics

Figure 9. Average Medicare-Age Retiree (65+) Copayment Amount, by Generic Drug Status, 2001



Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

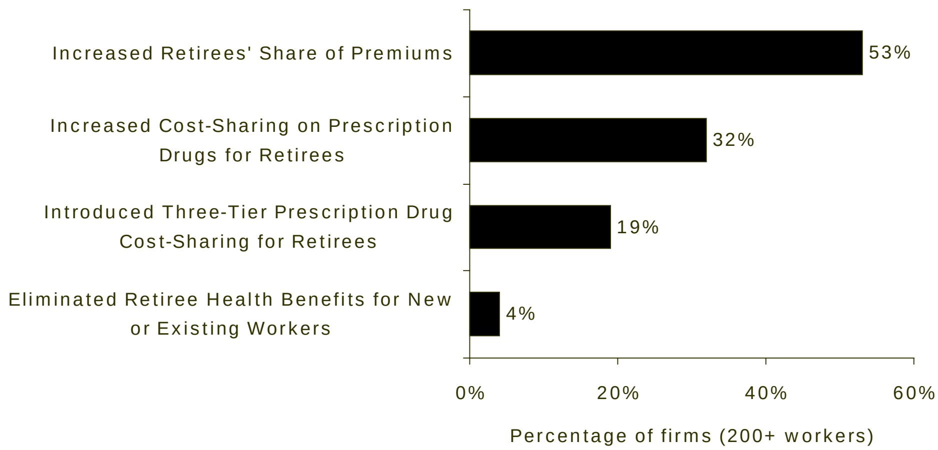
- The average prescription drug copayment for Medicare-age retirees (65 and older) ranges from $7 for generic drugs to $18 for brand-name drugs with generic substitutes.

- The average copayment for Medicare-age retirees for brand-name drugs with no generic substitutes is twice as high as the average copayment for generic drugs.

- Copayments for prescription drugs are more prevalent than coinsurance as a method of retiree cost-sharing (not shown).

During the Past Two Years, Firms Offering Retiree Health Benefits Have Made Substantial Changes in Those Benefits and in Cost-Sharing Requirements

Figure 10. Among Firms with 200 or More Workers Offering Retiree Health Benefits, Percentage that Made the Following Changes in Retiree Health Coverage in the Past Two Years, 2001



Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- Although few firms (4%) have eliminated retiree benefits altogether, a substantial number have altered benefits and cost-sharing requirements for retirees.

- One of every three firms (32%) that offers retiree health benefits increased cost-sharing for prescription drug benefits in the past two years.

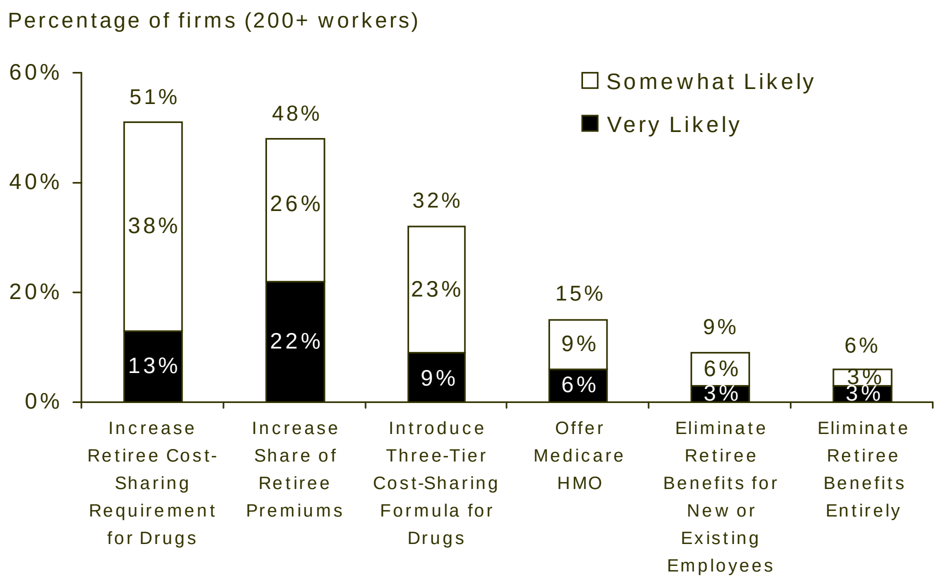
- More than half (53%) of employers offering retiree health benefits reported increasing the retirees' share of premiums in the past two years.

- Nearly one of five (19%) introduced three-tiered cost-sharing formulas for their prescription drug benefit.

- Two of five (42%) firms with 200 or more workers that offer retiree health plans said they have made at least one of the above prescription drug benefit changes in the past two years.

Many Firms Say They Are Planning to Make Substantial Changes in Their Retiree Health Benefits Over the Next Two Years

Figure 11. Among Firms with 200 or More Workers Offering Retiree Health Benefits, Percentage Planning Various Changes in Retiree Health Coverage in the Next Two Years, 2001



Source: Kaiser/HRET/Commonwealth Survey of Employers on Retiree Health Benefits, 2001.

- Fifty-one percent of firms report they are very or somewhat likely to increase retiree cost-sharing for prescription drugs, through higher copayments or coinsurance, for example.

- Forty-eight percent of firms say they are very or somewhat likely to increase the share of the retiree's contribution for premiums.

- Thirty-two percent plan to introduce a three-tier cost-sharing formula for prescription drugs, which will require retirees to pay more for nongeneric drugs.

- Nearly three-quarters (72%) of firms with 200 or more workers that offer retiree health plans said they are very or somewhat likely to make at least one of these changes in the next two years.